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An Update on State Budget Cuts
At Least 36 States Have Imposed Cuts That Hurt Vulnerable Residents, But the Federal Economic Recovery Package Is Reducing the Harm

By Nicholas Johnson, Phil Oliff, and Jeremy Koulish [1]

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The American Recovery and Reinvestment Act includes roughly $140 billion in fiscal relief for state governments, which are facing serious budget problems as a result of the worsening economy. Policymakers in at least 16 states, including **Alabama, Arizona, California, Colorado, Connecticut, Georgia, Hawaii, Kansas, Maryland, New Mexico, New York, Rhode Island, South Carolina, Utah, Virginia,** and **Washington,** have already advanced or enacted plans to use these funds to reverse previously proposed budget cuts and/or to balance their states' budgets in a way that mitigates potential cuts (see box on next page).

The recovery act funding, however, is sufficient only to fill about 40 percent of the $350 billion to $370 billion shortfall that states face in the next two-and-a-half years. To date at least 36 states have addressed their shortfalls by reducing services to their residents, including some of their most vulnerable families and individuals. Although the recovery package is mitigating states' fiscal problems, states are continuing to identify reductions as states develop budgets for the fiscal year that begins July 1.

Cuts to state services not only harm vulnerable residents but also worsen the recession by reducing overall economic activity. When states cut spending, they lay off employees, cancel contracts with vendors, reduce payments to businesses and nonprofits that provide services, and cut benefit payments to individuals. *All* of these steps remove demand from the economy.

The budget shortfalls are also leading states to enact or consider tax increases or other revenue measures. In 2009, at least 16 states have reduced their budget shortfalls by increasing taxes or otherwise raising new revenue. Like budget cuts, tax increases remove demand from the economy, by reducing the amount of money people have to spend. But tax increases can be less detrimental to state economies than budget cuts because some of the tax increases result in reduced saving rather than reduced consumption. Many more states will need to consider tax increases or other revenue measures, as well as steps such as tapping state rainy day funds, as a means of minimizing harmful budget cuts.

States Using Fiscal Relief to Minimize Cuts in Public Services

At least 16 states so far have put the fiscal relief in the federal recovery act to work minimizing harmful cuts in public services. For example:

Arizona used $20 million in stimulus money to reverse cuts to child care subsidies for low-income families. The cuts were scheduled to take effect this spring and ultimately would have affected 20,000 children.

California reversed a requirement that Medi-Cal (Medicaid) beneficiaries renew their eligibility more frequently, which was projected to cause more than 260,000 children to lose coverage by 2011.

Recovery funds provided almost one-third of the funding for **Connecticut's** enacted plan to close the state's current-year budget deficit; without the federal funds, the state would have had to enact spending cuts deeper than it already has.

Georgia's General Assembly has agreed to an amended budget for the current fiscal year that uses $145 million of federal stimulus money to replace funding that school districts were scheduled to lose under previously proposed cuts. The state has also enacted an FY 2010 budget that uses stimulus funding to close approximately 40 percent of the state's budget gap for the coming year.

Maryland used $2.5 billion in federal aid to help balance the state's budget in fiscal years 2009 and 2010. This funding helped the state to reverse a number of cuts the governor had proposed to K-12 public schools and community colleges, avoid 700 proposed layoffs, and fund anticipated cost growth in the state's Medicaid and energy assistance programs, among other measures.

New York passed a fiscal year 2010 budget that uses $4.9 billion in federal stimulus funding to help close the state's budget shortfall and mitigate Governor Patterson's proposed cuts to K-12 and higher education, health and human services funding, and state municipal aid.

In order to qualify for the enhanced level of federal Medicaid assistance under the new federal law, **South Carolina** reversed previously made cuts that had restricted eligibility and access to Medicaid services. Most notably, the state is reversing tighter income requirements that would have resulted in loss of coverage for an estimated 3,700 elderly and disabled people.

Utah used federal assistance to close almost 40 percent of its $1 billion shortfall for fiscal year 2010, thereby mitigating cuts to K-12 and higher education among other areas.

Virginia has enacted a revised two-year (2009 and 2010) budget that uses federal stimulus aid to mitigate previously proposed cuts to health care, K-12 and higher education, and the state workforce. The governor has stated that stimulus funding prevented the elimination of 7,100 state jobs.

Other states using federal aid to balance their budgets include **Alabama, Colorado, Hawaii, Kansas, New Mexico, Rhode Island,** and **Washington**.

Despite these changes, most or all of these states are making other cuts in their budgets, which the federal legislation will be insufficient to reverse.

The Deep Recession Is Creating Widespread Deficits

Due to the recession, state and local revenues are falling but the need for public programs is increasing, as residents lose jobs, income, and health insurance. Already, most states have faced budget shortfalls in the current fiscal year or beyond. The number of states facing budget gaps for 2009 and/or 2010 has risen to 47, and states are projecting $133 billion in shortfalls for 2010. Due to increasingly bad economic news, it appears likely that combined shortfalls for the rest of this fiscal year plus fiscal years 2010 and 2011 could reach $350 billion to $370 billion. [1] (These figures do not reflect the impact of the economic recovery package, which provides roughly $140 billion in funding over two-and-a-half years to help states address their operating budget shortfalls.)

Virtually all states are required to balance their operating budgets each year or each biennium. Unlike the federal government, states cannot maintain services during an economic downturn by running a deficit. Thus, states have to close these deficits with a combination of actions: drawing down reserves, cutting expenditures, and/or raising taxes.

Most states have already begun drawing on their rainy day funds and reserves and a number have virtually depleted their budget stabilization funds.

State Budget Cuts

States began cutting their budgets last spring, as the recession began and revenue began to weaken. The cuts have intensified as the economy has worsened. At least 36 states to date have reduced services since the recession began. Service cuts with particular ramifications for vulnerable populations have occurred in the following areas:

Public health programs: At least 19 states have implemented cuts that will affect low-income children's or families' eligibility for health insurance or reduce their access to health care services. For example, **Rhode Island** eliminated health coverage for 1,000 low-income parents; **Washington** is scaling back a health program for low-income adults to cut enrollment by an estimated 40,000 people by January 2010; and **California** and **Utah** are reducing services covered by their Medicaid programs.
Programs for the elderly and disabled: At least 21 states plus the District of Columbia are cutting medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increasing the cost of these services. For example, **Florida** has frozen reimbursements to nursing homes and relaxed staffing standards, **Nevada** is making it harder for beneficiaries to qualify for nursing home care, and **Rhode Island** is requiring low-income elderly people to pay more for adult daycare. **Arizona** eliminated temporary health insurance for people with serious medical problems.
K-12 education: At least 22 states are cutting K-12 and early education. Already, **Arizona, Florida,** and **South Carolina** have each cut school aid by an estimated $95 or more per pupil. **Rhode Island** is eliminating early education funding for 550 children, and **Massachusetts** is reducing funding for a number of early care programs.
Colleges and universities: At least 30 states have implemented cuts to public colleges and universities, resulting in cuts in faculty and staff and tuition increases of 4 percent to 15 percent. Students in **Rhode Island** and **New York** are facing mid-year tuition hikes.
State workforces: At least 39 states and the District of Columbia have made cuts affecting their state workforces. At least 27 states and the District of Columbia have instituted hiring freezes, 10 have announced lay-offs, 15 have reduced state worker wages, and several have delayed scheduled pay increases (including cost of living adjustments).

These measures are described in more detail in the Appendix.

Revenue Increases

States facing large budget shortfalls can avert deep cuts in vital services by enacting temporary or permanent revenue increases.

In late 2007 and 2008, some 10 states enacted tax increases, closed loopholes, restricted tax credits, or implemented other revenue-raising measures. Major packages were enacted in **Maryland, Michigan,** and **New York**.
So far in 2009, at least 16 states have raised taxes, sometimes quite significantly, and another 15 states are considering tax increases. Increases have been enacted or are under consideration in personal income taxes, business taxes, sales taxes, and excise taxes.

The 2009 measures are detailed in a separate Center on Budget and Policy Priorities analysis. [2]

AT LEAST 36 STATES HAVE ENACTED CUTS						
	Public Health (19)	Elderly/ Disabled (22)	K-12 Education (22)	Higher Education (30)	State Workforce (40)	Revenue Increase (16)
Alabama		X	X	X	X	X
Alaska					X	
Arizona	X	X	X	X	X	
Arkansas						
California	X	X	X	X	X	X
Colorado					X	
Connecticut			X	X	X	
Delaware			X		X	X
Dist.of Columbia		X			X	
Florida	X	X	X	X	X	
Georgia	X	X	X	X	X	
Hawaii					X	X
Idaho	X			X	X	
Illinois	X				X	
Indiana						
Iowa			X	X	X	
Kansas		X	X	X	X	
Kentucky			X	X	X	
Louisiana	X	X		X	X	
Maine	X	X	X	X	X	X
Maryland	X	X	X	X	X	X

Massachusetts		X	X	X	X	X
Michigan	X	X			X	X
Minnesota		X		X	X	
Mississippi			X	X	X	
Missouri						
Montana						
Nebraska						
Nevada	X		X	X		X
New Hampshire	X				X	X
New Jersey	X			X	X	X
New Mexico				X	X	
New York	X			X	X	X
North Carolina				X	X	
North Dakota						
Ohio		X	X		X	
Oklahoma				X		X
Oregon			X			
Pennsylvania		X		X	X	
Rhode Island	X	X	X	X	X	X
South Carolina	X	X	X	X	X	
South Dakota					X	
Tennessee	X	X		X	X	
Texas						
Utah	X	X	X	X	X	
Vermont		X		X	X	X
Virginia		X	X	X	X	
Washington	X	X	X	X	X	
West Virginia						
Wisconsin					X	X
Wyoming					X	

Appendix: Budget Cuts by Area

At least 36 states plus the District of Columbia have enacted budget cuts that will affect services for children, the elderly, the disabled, and families, as well as the quality of education and access to higher education. [3] Those cuts are detailed below.

Public Health Programs

At least 19 states have implemented cuts that will affect eligibility for health insurance programs and/or access to health care services.

Arizona is reducing its Medicaid rolls by requiring some adult beneficiaries to reapply for benefits more frequently. (Research has shown such added paperwork requirements cause many eligible people to lose coverage.) The state has also cut funding for community health centers and vaccines and suspended funding for the children's rehabilitative services program, affecting 4,700 children with chronic or disabling conditions.
California has cut its CHIP program by increasing co-payments and reducing dental benefits, among other changes. The state also has cut payments to regional service providers in its Medicaid program (known as Medi-Cal) by 7 percent and suspended a scheduled cost-of-living increase for other Medi-Cal providers.
Rhode Island has reduced the maximum income level at which parents can receive public health insurance from 185 percent of the federal poverty line to 175 percent, eliminating coverage for approximately 1,000 parents. More than 7,800 other low-income families are paying higher monthly premiums for public health insurance.
In **Tennessee**, an estimated 30,000 to 40,000 seriously ill people are expected to lose hospitalization and other needed medical services provided through TennCare, the state's Medicaid program.
Utah legislators have cut Medicaid funding for physical therapy, occupational therapy, and speech and hearing therapy services for adults. They also cut Medicaid provider rates for hospitals, skilled nursing, and dentists.
By January 2010, 40,000 people are estimated to lose health coverage under a **Washington** program for low-income adults. The program, which had enrollment of more than 100,000 earlier this year, is expected to shrink to 60,000 in the coming months, even as more people are likely to lose access to job-based coverage.
Several states, including **California**, **Michigan**, **Nevada,** and **Utah,** have dropped coverage of dental and/or vision services for adult Medicaid beneficiaries.
Other states that have enacted cuts in Medicaid or CHIP include **Florida, Georgia, Idaho, Illinois, Louisiana, Maine, Maryland, Michigan, New Hampshire, New Jersey, New York,** and **South Carolina.** Cuts include reduced or frozen reimbursements to health care providers.

Programs for the Elderly and Disabled

At least 21 states and the District of Columbia have cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increased the amounts that such people must pay for the services.

Alabama has ended homemaker services for approximately 1,100 older adults. These services often allow people to stay in their own homes and avoid nursing home care.
Arizona has eliminated temporary health insurance for people with disabilities who are coping with serious medical problems. The state also eliminated general assistance, a program designed to provide time-limited cash assistance to adults with physical or mental disabilities. In addition, in February 2009 the state eliminated independent living supports for 450 elderly residents and respite-care funding for 130 caregivers. It also established a waiting list for vocational rehabilitation services, affecting 2,100 disabled individuals. Furthermore, the state has eliminated early intervention services (services that support young children with special needs) for 850 infants and toddlers at risk of developmental delay.
In **Florida,** nursing homes and other providers will not receive scheduled cost-of-living adjustments in their reimbursements and staffing standards will be relaxed for one year, in the expectation that the freeze would result in staffing cuts. The state has also cut Medicaid reimbursements to hospitals and community-based services for the elderly, such as meals and homemaker services.
Georgia has reduced services for the elderly, such as Alzheimer services, elder service centers, prescription drug assistance, and elder support services.

Louisiana will impose a limit on the number of Medicaid prescriptions it will pay for. This may affect access to prescription drugs for mentally ill or disabled individuals who rely on several medications to manage their conditions.

In **Massachusetts,** the governor has ordered cuts in programs for elders, including home care, geriatric mental health services, and prescription drug assistance.

Minnesota has capped enrollment at current levels for a program that provides expanded health services and care coordination for people with disabilities.

Ohio plans to close two mental health facilities.

In **Rhode Island**, low-income elderly people now must pay higher rates for subsidized adult day care. This is estimated to affect more than 1,200 people with incomes below $20,000

Tennessee has reduced community-based services for people with intellectual disabilities and cut nursing services for some adults with serious disabilities.

Vermont has reduced some home-based services, such as housekeeping and shopping, for people who are elderly or disabled. Such services help people stay in their own homes and possibly delay or avoid more expensive nursing home care.

Virginia has decreased reimbursements for special hospitals serving people with needs relating to mental health, mental retardation, or substance abuse. The state also reduced pass-through grants for various aging programs and funding for local mental health providers.

Other states that have capped or reduced funding for programs that serve people who have disabilities or are elderly include**California**, the **District of Columbia**, **Kansas,Maine**, **Maryland**, **Michigan, Pennsylvania, South Carolina, Utah,** and **Washington.**

K-12 Education and Other Childhood Education Programs

At least 22 states have implemented cuts to K-12 education.

Arizona has enacted mid-year cuts in core K-12 funding of $96 per pupil.

Florida has cut aid to local school districts for the current year by $140 per pupil.

South Carolina has cut per-pupil funding by $95 in the current year.

California is reducing basic K-12 education aid to local school districts. It also is cutting a variety of other programs, such as adult literacy instruction, and is reducing funding for some grants and programs aimed at helping high-needs students.

Maryland cut funding for a school breakfast pilot program, professional development for principals and educators, health clinics, gifted and talented summer centers, and math and science initiatives.

Massachusetts enacted cuts to Head Start, universal pre-kindergarten programs, and early intervention services to help special-needs children develop appropriately and be ready for school. The state also cut K-12 funding, including spending for mentoring, teacher training, reimbursements for special education residential schools, services for disabled students, and programs for gifted and talented students.

In **Nevada**, the governor has ordered various cuts to K-12 education, including delaying an all-day kindergarten expansion, cutting per pupil expenditures by $400 in a pilot program, eliminating funds for gifted and talented programs, eliminating funds for a magnet program for students who are deaf or hard of hearing, and making across-the-board cuts. Additionally, young children with developmental delays will lose more than 15,000 hours of needed services.

Rhode Island has frozen state aid for K-12 education at last year's levels in nominal terms and reduced the number of children who can be served by Head Start and similar services by more than 550.

State education grants to school districts have also been cut in **Alabama, Connecticut, Delaware, Georgia, Iowa, Kansas, Kentucky** , **Maine, Mississippi, Ohio, Oregon, Utah,** Washington and **Virginia.**

Colleges and Universities

At least 30 states have implemented cuts to public colleges and universities and/or made large increases in college tuition to make up for insufficient state funding.

Arizona State University has addressed its loss of state funds by eliminating over 550 staff positions and 200 faculty associate positions, imposing employee furloughs ranging from ten to fifteen days, consolidating several schools and almost two dozen academic departments, and limiting enrollment in its nursing school. Tuition in Arizona this year rose 9.5 percent in response to funding cuts.

As a direct result of state budget cuts the **California** State University system is cutting enrollment by 10,000 students. The University of California system is reducing California resident freshman enrollment by 2,300 students for next year.

Florida has cut university budgets and community-college funding. The University of Florida has announced it will eliminate 430 faculty and staff positions and decrease funding for disability services, financial aid services, and internship opportunities. Student enrollment is declining by more than 1,000 at both Florida State University and the University of Florida. The legislature also has approved a statewide tuition increase for the current academic year of 6 percent; the University of Florida increased tuition for in-state undergraduates by 15 percent.

New York has enacted tuition increases for this year and next year. Resident undergraduate tuition will increase a total of 14 percent by the 2009-10 academic year.

When **Rhode Island** cut higher education funding last year, the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island all increased tuition for the current academic year. Each of these institutions now has gone one step further by increasing tuition further mid-year, by 6.7 percent, 8.2 percent, and 4.3 percent respectively.

Budget cuts reduced state funding for the University of **Washington** by 26 percent for the coming biennium. The budget authorizes the University to increase tuition up to 14 percent to compensate for this funding loss.

Following cuts to state university budgets, tuition increases for the current academic year were announced in **Alabama** (13 percent), **Kentucky** (5 to 9 percent), **Maine** (10 percent), **New Jersey** (4 to 9 percent), **Oklahoma** (9 to 10 percent), **South Carolina** (6 percent), **Tennessee** (6 percent), and **Virginia** (average increase of 7.3 percent when fees are included).

Other states cutting higher education operating funding include **California, Connecticut, Georgia, Idaho, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Mississippi, Nevada , New Mexico, North Carolina, Pennsylvania, Utah,** and **Vermont.**

Cuts in Other Services

States also are making cuts in a variety of other programs, including programs for very poor families and other vulnerable populations.

Arizona is reducing TANF cash assistance grants for 38,500 low-income families, eliminating substance abuse services for 1,400 parents and guardians, and decreasing its homeless shelter capacity by 1,100 individuals.

California is suspending cost-of-living adjustments to cash assistance programs for low-income families and cutting child care subsidies.

In **Connecticut**, the governor has ordered budget cuts to programs that help prevent child abuse and provide legal services for foster children.

The **District of Columbia** has reduced its cash assistance payments to needy families. It also cut funding for services that help low-income residents stay in their own homes and communities.

Illinois has reduced funding for child welfare, mental health, youth services, and other programs.

In **Maine,** the governor has cut funding for homeless shelters.

Maryland has cut reimbursement rates for institutions that provide services to abused and neglected children.

The **Nevada** welfare agency will make it harder for low-income families to receive cash assistance and health insurance, with the expected result that fewer families will receive those benefits. For instance, the state will require some families that have lost benefits to wait longer before reapplying.

Rhode Island has cut funds for affordable housing, eliminated health insurance for home-based child care providers, restricted TANF cash assistance for children, reduced health insurance for retired state workers, and cut support to localities by $10 million.

The **South Carolina** Department of Juvenile Justice has lost almost one-fourth of its state funding since July, resulting in over 260 lay-offs and the closure of five group homes, two dormitories, and 25 after school programs.

To operate within a reduced budget, the Chief Justice in **Vermont** ordered the supreme court, district court, and family court to close for half a day each week.

Some states, such as **Delaware, Maryland, Michigan, New Jersey, New York**, **Rhode Island**, and **Virginia**, have implemented cuts to localities, leading to local concerns about reductions in funding for policing, meals for the elderly, hospice care, services for veterans and seniors, and other services.

Cuts in State Workforces

At least 39 states plus the District of Columbia are eliminating or not filling various state jobs, imposing mandatory furloughs (time off without pay), or making other cuts affecting their state workforce. Such steps can make it more difficult for residents to obtain state services. Cutting staff — whether on a permanent or temporary basis — also may contribute to increased unemployment.

A number of states are imposing furloughs and/or pay cuts for some state employees. These include **Arizona, California, Georgia, Idaho, Iowa, Kentucky, Maryland, Massachusetts, Michigan, New Jersey, New Mexico, Ohio, North Carolina, South Carolina,** and **Utah**.

To deal with budget cuts in **Kentucky**, the Department of Public Advocacy (which defends clients in the criminal justice system) instituted a strict hiring freeze, gave early retirement to 25 employees, and furloughed remaining employees.

New Jersey has eliminated 2,000 state positions by encouraging early retirement, leaving vacancies unfilled, and laying off staff.

The **Ohio** governor has announced plans to eliminate as many as 2,700 positions, about 4.5 percent of the state workforce, through a combination of early retirements, layoffs, and leaving vacancies unfilled. In the Department of Jobs and Family Services — which oversees disability services, child care, child support, health care, child welfare, and other services — fully 14 percent of positions will be eliminated or left unfilled. Overall, the Ohio state workforce declined by 3,000 between March 2007 and December 2008.

Rhode Island plans to reduce the state workforce by 2,000 or more. The state is encouraging early retirement but has announced that it will lay off workers if needed.

The **Tennessee** governor has announced the elimination of over 2,000 state positions, about 5 percent of the state workforce. Some 1,500 employees accepted buy-outs for early retirement.

In **Washington,** a hiring freeze imposed by the governor in August caused the state's workforce to decline by more than 1,400. In early January the state replaced the freeze with a cap on the number of budgeted positions at each state agency; the state's workforce is expected to fall by another 2,600 under the cap.

Virginia's governor has eliminated 800 currently unfilled positions, laid off 567 state workers, and delayed a 2 percent salary increase scheduled for November 2008.

Hiring freezes have also been ordered in **Alabama, Alaska, Arizona,California, Colorado, Connecticut**, **Delaware**, the**District of Columbia**, **Florida**, **Georgia,Hawaii, Iowa, Kansas, Louisiana,**

Maine,Michigan,Minnesota, Mississippi, New Hampshire, New Mexico,New York, North Carolina, Pennsylvania, South Dakota, Vermont, Wisconsin, and Wyoming.

Additional states — such as **Arizona, Florida,Illinois, Maine, Massachusetts, Michigan,** and **South Carolina** — have laid off or announced plans to lay off state employees.

As noted above, a number of state colleges and universities in states such as **Alabama, Arizona, Florida, Kentucky,** and **New Jersey** are responding to budget cuts by cutting faculty and staff positions.

End Notes:

[1] See Elizabeth McNichol and Iris J. Lav, "State Budget Troubles Worsen," Center on Budget and Policy Priorities, updated March 13, 2009, http://www.cbpp.org/9-8-08sfp.htm.

[2] "Tax Measures Help Balance State Budgets," Center on Budget and Policy Priorities, May 13, 2009.

[3] The 36 states that have already enacted cuts are Alabama, Arizona, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi,, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, Vermont, Virginia, and Washington. The District of Columbia is also making such cuts.

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